

the Arkansas PSC that it, too, could no longer profitably provide local residential service via UNE-P and would continue to provide service only on a resale basis.²³ SBC does not provide evidence of one competitive provider in Arkansas or Missouri that offers facilities-based service to residential consumers in any meaningful way.

Barring commercial experience, the Commission can best judge OSS-readiness with an independent, third-party test. *See* Texas Order ¶ 98. Unfortunately, there was no such test in either Arkansas or Missouri. SBC therefore again asks the Commission to simply rely on its self-certified claims (some of which are supported by its long-time auditor Ernst & Young) that its systems in Arkansas and Missouri are the same as in Texas and would work properly under competitive conditions.

However, there is no basis to trust SBC's assertions, which have proven false before. One OSS problem where SBC has been caught making misrepresentations relates to LMOS, SBC's legacy system that manages trouble tickets. Clearly, the Commission should require an independent third-party test in Arkansas and Missouri of the LMOS problem and SBC's purported "fixes." The LMOS problem involves SBC failing to update the records of new CLEC customers to show that the customers belong to the CLEC. This results in the CLEC being unable to open a trouble ticket electronically for that line, because the customer appears in the system to still be an SBC customer. CLEC customer service representatives attempting to open a trouble ticket electronically receive a message that says that the telephone number has been disconnected. Customer service representatives must then submit the trouble ticket manually. This denies competitors equal access to automated maintenance and repair functions because, unlike SBC's retail

²² *See* Transcript of Nov. 2, 2000 Arkansas PSC hearing at p. 17.

²³ *See* Transcript of April 20, 2001 Arkansas PSC hearing, Public Comments Section, p. 2.

arm, competitors must use manual processes that inherently are slower and more costly to the CLEC and result in delays to fix the customer's line. Even aside from the delays on SBC's side of the interface, it takes CLECs far longer to submit trouble tickets via phone call than to do so electronically – especially when there are difficulties getting through to SBC service representatives, as there often are. As KPMG found when discussing a similar problem in New York, the result is that "[t]he CLEC's customer suffers an extended time delay in getting service problems resolved." KPMG Exception Report 38. Furthermore, the inability of CLECs to submit electronic trouble tickets makes it more difficult for CLECs to track trouble tickets on their side of the interface and may result in distortion of SBC's performance reports. If CLECs eventually manage to submit a trouble ticket for a customer but the CLEC's order has not yet posted in SBC's systems to show that the customer is a CLEC customer, then SBC's measurements of trouble tickets submitted will not capture that trouble ticket as a CLEC trouble ticket. To the contrary, they will view the trouble ticket as an SBC retail trouble ticket, falsely inflating trouble tickets submitted for retail customers while reducing those submitted by CLECs. Finally, the manual introduces the possibility of miscommunication over the phone.

Recognizing that the LMOS problem would likely receive close Commission scrutiny in light of competitors' comments in the first Missouri section 271 proceeding, and having been caught making misrepresentations in its sworn testimony,²⁴ SBC spends considerable time in its Brief describing how it has resolved the issue. SBC Brief at 64-72. Although SBC appears to have put in place a number of work-around solutions to at least carry it through the 271 proceeding, there is not yet any independent evidence showing that the problem has been fixed in those states. WorldCom's recent experience

in Texas indicates that the problem has not been entirely fixed. Over a recent two-week period, there were still some tickets that WorldCom could not submit electronically.

Indeed, even SBC acknowledges in its Brief the possibility that competitors will be unable to open trouble tickets electronically in the first few days after an order is completed. SBC Brief at 71. In fact, SBC reveals that in a random sample of orders in July 2001, trouble tickets could not be opened electronically the first night after the order was installed for 45 percent of competitors' orders. SBC Brief at 71. This is a significant problem.

In New York, when competitors could not submit trouble tickets on many orders immediately after those orders had completed, KPMG issued an exception report and Bell Atlantic then altered its systems to enable them to accept troubles immediately after an order had been completed. New York Order ¶ 216. Similarly, when competitors in Texas explained to the FCC during the first Texas 271 proceeding that they often could not submit trouble tickets electronically in the first days after an order had completed, SBC claimed to have fixed the problem for its Toolbar application. During the second Texas 271 application, WorldCom complained that it still could not submit trouble tickets electronically via SBC's electronic bonding interface. In approving the application, the Commission explained that competitors could submit trouble tickets electronically through Toolbar and that SBC also had implemented changes while the application was pending that it promised would enable competitors to submit trouble tickets electronically through the electronic bonding interface. Texas Order ¶204. The LMOS problem indicates, however, that more than a year after approval of the Texas application, competitors could not submit trouble tickets electronically either through Toolbar or

²⁴ See *AT&T Letter*

through the electronic bonding interface – further showing the danger of trusting SBC’s representations that the LMOS problem has been fixed.

Moreover, even if it were proven that the LMOS problem had been largely cured in Texas, where there is residential competition, this would not necessarily show that the problem had been resolved in Arkansas and Missouri. Or, even if the problem had been fixed in Missouri, this would not prove that the problem had been fixed in Arkansas. SBC acknowledges in the LMOS section of its Brief that the degree of the LMOS problem varied from state to state due to decentralized training and procedures for its personnel teams responsible for manual error correction of the LMOS problem. SBC Brief at 66, n.53. And even once SBC put in place more centralized training and procedures, the particular skill sets of various technicians and different equipment across jurisdictions can cause variations in performance, as KPMG found earlier this year in a “Comparability Study” in the Verizon-South region.²⁵ Given SBC’s prior representations on the LMOS issue, therefore, it is vital to have an independent third-party test of LMOS in Missouri and Arkansas.

Other OSS concerns also exist. In its application, SBC notes its prior commitment to introduce a single-LSR conversion process for line splitting in October of this year, but does not affirm its commitment in this application. Rather, SBC appears to attempt to leave itself room to back off its October commitment. Chapman MO Aff. ¶¶ 115-116. Pursuant to an agreement reached between AT&T and SBC, SBC commits to provide a single-LSR process (via EDI and LEX) for providing line splitting on a UNE-P

²⁵ See KPMG Consulting Comparability Study (Feb. 12, 2001).

arrangement in the SWBT region no later than October 20, 2001.²⁶ SBC should affirmatively state in its application that it will comply with the agreement. Until a single-order process is implemented, competitors must go through a cumbersome multi-level ordering process. To provide parity, SBC must provide line splitting for UNE-P carriers on same terms and conditions to how it offers other services—through the submission of a single order.

III. SBC HAS STILL NOT MET ITS BURDEN OF PROVING THAT IT HAS SATISFIED CHECKLIST PRICING REQUIREMENTS IN MISSOURI AND ARKANSAS

Even the second time around in Missouri, SBC has failed to meet checklist item number two, which requires that SBC prove that it has made available unbundled network elements at just, reasonable, and non-discriminatory prices that are based on the costs of those elements. SBC has not met its burden in either Arkansas or Missouri of showing that its rates reflect its forward-looking costs and are based on an appropriate application of the Commission's TELRIC methodology. In Arkansas, SBC has simply imported the rates used in Kansas without proof of Arkansas costs. In Missouri, SBC has not corrected the TELRIC problems that WorldCom identified in its comments in the first Missouri section 271 proceeding. In particular, the prices of switching and loops in Missouri exceed TELRIC-based prices. The prices are also inexplicably high when compared to prices for switches and loops in neighboring states that have gained 271 approval, one of which (Texas) is currently embarking on a new cost proceeding

²⁶ Letter from Robert W. Quinn, Vice President of Federal Government Affairs, AT&T to Dorothy Attwood, Chief, FCC Common Carrier Bureau and David Solomon, Chief, FCC Enforcement Bureau, dated April 17, 2001, memorializing a settlement agreement between AT&T and SBC on line splitting.

expected to lower its UNE rates to better reflect forward-looking costs.²⁷ Indeed, assuming for purposes of argument that Kansas switching rates are satisfactory, Missouri's switching rates are 16 percent higher than in Kansas, even though Kansas and Missouri have nearly identical costs. Frentrup Decl. ¶ 8. And loop rates in Missouri are higher than in any other state in the SWBT region. Frentrup Decl. ¶ 9. Although the Commission has concluded previously that UNE rates may vary somewhat from state to state, that conclusion was based on the expectation that any variance would be supported by state-specific differences in costs. Here, however, no such support is provided, even though the relatively rural nature of the states in the SWBT region might be expected to produce similar rates.

Rather than taking the time in between applications to develop such support, SBC simply trimmed a portion of its loop and switch usage rates in Missouri, apparently hoping that an arbitrary rate cut would pass muster with the reviewing regulatory bodies. SBC's auction-style bidding process, where SBC keeps asking "is this good enough?" succeeded with the Missouri PSC over the objections of Commissioner Gaw, who appropriately requested a hearing with evidence showing why the new rates are proper for Missouri and why other states in the region offer lower rates.²⁸ Although WorldCom favors any UNE rate reductions, this Commission should not approve rates that are inexplicably higher than the rates in neighboring jurisdictions, are not TELRIC-based, and are not supported on the record by cost models and inputs that commenters and regulators have the ability to review.

²⁷ Petition of MCImetro Access Transmission Services LLC for Arbitration of an Interconnection Agreement with Southwestern Bell Telephone Company Under the Telecommunications Act of 1996, before the Public Utility Commission of Texas, filed Aug. 22, 2001.

²⁸ See Missouri Public Service Commission Agenda, Aug. 28, 2001, Case Discussion.

A. SBC's Switching Rates Are Unreasonably High Compared to Rates in Other SBC States and Are Not TELRIC-Compliant

The UNE rates in Missouri for switching are still too high. Assuming for purposes of this application that the switching rates in Kansas are appropriate, the switch usage rate in Missouri is, on a per-minute basis, nearly 16 percent higher than the switch usage rate in Kansas. Frentrup Decl. ¶ 8. This is true even though the cost relationships from the Commission's Synthesis Model show that Missouri and Kansas rates are nearly identical.²⁹ Frentrup Decl. ¶ 8. Thus, the switch usage rate in Missouri should be reduced by about 16 percent to simply bring it in line with the Kansas rate.³⁰

In addition to unjustifiably exceeding the costs in SWBT states that have gained 271 authorization, the Missouri rates for switch usage are not TELRIC-based. SBC develops the basic switching investment through the use of the Switching Cost Information (SCIS) model. SCIS is a proprietary engineering model developed by Telcordia (previously Bellcore). SBC's failure again to submit this model as part of its application in this proceeding, or otherwise sufficiently defend its rates, means that it has not met its burden of demonstrating that its pricing is cost-based. Because SBC has neither made the SCIS model available for review in this proceeding, nor even presented the outputs of SCIS that were used to set the switching rates, WorldCom cannot see what is included in the switching investment levels. Frentrup Decl. ¶ 15.

Nevertheless, WorldCom has identified problems with the design of the cost models used to set the rates in Missouri and the inputs used in the model. WorldCom

²⁹ These costs were derived from the January 20, 2000 release of the Commission's Synthesis Model results. The methodology used was the same as that used in the Affidavit of Thomas J. Makarewicz, Appendix A-Arkansas, Volume 5, Tab 15, of SBC's application.

³⁰ Although the Texas costs and rates are lower than in Missouri, the Texas rates are expected to be lowered even further during the new Texas cost proceeding. In Oklahoma, where switching rates are

identified several input and model design issues that at least partially explain SBC's overstatement of costs. For the most part, WorldCom was not able to quantify the exact effect of these problems due to SBC's unwillingness to come forward with the information necessary to make such calculations. But it is clear that there are substantial problems with the model and inputs used for the development of switching and loop costs that have resulted in excessive rates, which have only partially been offset by arbitrary, unexplained, and unsupported reductions in loop and switch usage rates.

1. Switch Vendor Discounts

One significant input used in the SCIS is the vendor discounts provided on the list prices for switches. The Commission determined in its development of the Synthesis Model in the universal service proceeding that it should rely on the initial switch vendor discounts, rather than switch growth discounts.³¹ Initial switch vendor discounts are the very steep discounts that a BOC usually receives when purchasing a new switch. The Commission found appropriate the use of initial switch vendor discounts in the Synthesis Model because initial switch purchases reflect cost-effective, forward-looking technologies. USF Tenth Report and Order ¶ 317. Other states, such as Kansas and Texas, have used a weighted average of both initial and growth discounts for setting switch discounts. But, for the first time, a state regulatory commission -- the Missouri PSC -- has decided to use solely the discounts given on purchases of growth switches. These discounts have typically been found, in various state and federal proceedings, to be significantly lower than the discounts provided on initial switch purchases. The Missouri

higher than in Missouri even though its costs are lower, an appeal is pending on the reasonableness of SWBT's rates.

PSC's decision to use only growth discounts most certainly inflates the costs of switching. Frentrop Decl. ¶ 17. Without the necessary input, which was not provided by SBC, the amount by which the switch costs are inflated by this input cannot be determined. Frentrop Decl. ¶ 18. Use of this lower growth discount clearly does not comport with TELRIC principles, and should be corrected. Frentrop Decl. ¶ 18.

2. Hardware Factor

The above-described inflation of switching investment is compounded by SBC's method of computing the investment in pieces of switch-related equipment. Frentrop Decl. ¶ 19. Any amount by which SBC overstates the SCIS investment through the use of the smaller switch-growth discounts (or other problems) will result in the use of excessive hardware investment in the model, because SBC determines the ratio of investment in these pieces of switch-related hardware to switch investment, based on historical data, and multiplies this "hardware factor" by the SCIS investment. In other words, any amount by which the SCIS investment is overstated through the use of the smaller switch-growth discounts will also result in excessive hardware investment in the model. Frentrop Decl. ¶ 19. Here, the hardware factor adds about eight percent to the switching cost. Frentrop Decl. ¶ 21.

In addition, the manner in which the factor is developed for hardware may overstate the investment, as acknowledged by the Missouri PSC. While accepting use of this factor, the Missouri PSC points out that the equipment included in this factor may be double-counted elsewhere in other investment. It also expressed concern that the factor, developed based on historical relationships between switch and hardware investment in

³¹ Although the Commission previously indicated that the Synthesis Model should not be used to determine rate levels for unbundled network elements, the Commission stated that the synthesis model can

SBC's network, may be based on old technology and therefore inflated. Unfortunately, the Missouri PSC did not adjust the hardware factor, despite its acknowledgement of these issues. In light of the Missouri PSC's expressed uncertainty about the correctness of this factor, the FCC should not defer to the Missouri PSC regarding its decision to allow use of this factor in the computation of switching costs.

3. Depreciation Factor

The Missouri PSC adopts a projection life and net salvage for switches that further contributes to SBC's excessive switching costs, resulting in switching costs overstated by 12-15 percent. Frentrup Decl. ¶ 22. Projection life and net salvage are combined to develop a depreciation factor that is used to determine depreciation expense.³² The resulting depreciation factor is 10.21 percent. Frentrup Decl. ¶ 22. In other words, the annual depreciation expense is 10.21 percent of total switch investment. Frentrup Decl. ¶ 22. This 10.21 percent factor is far higher than the factor would have been had the Missouri PSC used either the values adopted by the FCC for use in the Synthesis Model (in which case the factor would have been 6.09 percent and consequently lowered switching costs about 12 percent) or the values that the Missouri PSC adopted for SBC's intrastate retail rates (where the factor would have been 5.14 percent and, as a result, lowered switching costs about 15 percent). Frentrup Decl. ¶ 22.

SBC attempts to support the use of these shorter lives on the grounds that regulatory lives, such as those used in the Synthesis Model, are based on physical, rather than economic, obsolescence. WorldCom disagrees with this claim. The lives adopted by the Commission for use in the Synthesis Model constitute an average of the regulatory

be used to compare the relative differences between states. Massachusetts Order ¶ 40.

³² The formula is $(1 - \text{Net Salvage}) / \text{Depreciation Life}$.

lives adopted by ILECs. Prior to the Commission's depreciation simplification proceeding, the ILECs' depreciation lives were set based on their own data regarding actual plant retirements. These retirements occurred for both physical reasons (e.g., the plant simply wore out) and economic reasons (e.g., the ILECs installed a newer technology). Furthermore, if the ILECs could convincingly demonstrate to the Commission that they expected to retire plant more quickly than their historical data indicated, that projected increase in retirements would already be reflected in the depreciation life. Frentrup Decl. ¶ 23.

Under the Commission's depreciation simplification, the ILECs were allowed to select the level of depreciation-life within a range determined by the depreciation lives previously adopted by the Commission. The ILECs, for the most part, simply selected the depreciation lives at the upper end of the range, which ultimately defined the depreciation lives used in the Synthesis Model. Because these lives are based on ILECs' actual and projected experience with retirements, they already reflect the physical and economic obsolescence of plant. Frentrup Decl. ¶ 25. Furthermore, because these lives reflect the ILECs' selection of lives at the high end of the Commission's allowed range, these lives yield a conservatively high estimate of depreciation expense. Frentrup Decl. ¶ 25. These lives should have been used to set UNE rates in Missouri.

B. SBC's Loop Rates Still Are Not at TELRIC Levels

Loops, which continue to be set at excessive rates in Missouri, are generally the single largest network element cost to competitors seeking to provide local competition using UNE-platform. SBC lowered most loop rates by about 10 percent in this second application for Missouri, but this reduction remains insufficient. SBC's loop rates in

Missouri are higher on a statewide basis than any other state in the SBC region for which section 271 authorization has been granted, even though the Synthesis Model shows that Missouri's loop costs should be lower than the cost in every such state except Texas.

Frentrup Decl. ¶¶ 9-10. For example, Missouri's UNE loop rates are \$1.24 higher than loop rates in Kansas, even though the Synthesis Model shows the loop costs in these two states to be almost identical. Frentrup Decl. ¶ 10. Loop costs in Missouri are about six percent lower than in Oklahoma, yet Missouri's loop rates are higher than those in Oklahoma. Frentrup Decl. ¶ 10. Despite SBC's arbitrary reduction of its loop rates prior to filing this second application, they are still too high.

There are also a number of problems with the models used to develop loop costs and the inputs used in those models, as described below.

1. Depreciation Factor

First, the depreciation lives and net salvage values selected by the Missouri PSC for loop rates present the same problems as discussed above with switching rates. Frentrup Decl. ¶ 26. These erroneous values cause the same effect on loop costs as they do with switching costs, i.e., overstating costs by about 12 percent if the Synthesis Model values are used, or by about 15 percent if the retail intrastate rates are used. Frentrup Decl. ¶ 26.

2. Fill Factors

An additional input problem in the loop model are the fill factors used for copper distribution and fiber feeder. Frentrup Decl. ¶ 27. The Missouri PSC adopted a 40 percent distribution fill factor, the exact level that the Commission criticized in the

Massachusetts Order.³³ In addition, the fiber feeder fill factor is set at 85 percent rather than the 100 percent factor used in the Synthesis Model. The 100 percent fill factor is justified because fiber cable can be “resized” simply by changing the electronics at the end of the fiber and, therefore, does not require additional fibers to accommodate growth or spares. Although adjustments to these two inputs are clearly warranted, WorldCom is unable to determine the effect of making these changes, SBC has not filed its LPVST model that is used to compute loop investment. Frentrup Decl. ¶ 27.

3. Poles and Conduit

The Missouri PSC has also used an unrealistically low assessment of the amount of sharing of both poles and conduit by SBC and other parties. Frentrup Decl. ¶ 28. The UNE rates are computed for Missouri assuming that SBC is bearing approximately half the cost of the poles in all zones. The FCC, however, found that sharing was as high as 65 percent in more urban zones, which would mean that SBC would bear only 35 percent of the cost. Even more troubling, the Missouri PSC assumes that SBC will share only 0.09 percent of its conduit with other parties. Frentrup Decl. ¶ 28. This assumption is completely inconsistent with the Synthesis Model, which uses a level of sharing as high as 55 percent in the more urban zones, as well as inconsistent with the findings in other states. Frentrup Decl. ¶ 28. Using this unlikely low level of sharing substantially overstates the cost of conduit for loop plant. Frentrup Decl. ¶ 28. Again, however, since SBC did not file its LPVST model, WorldCom cannot quantify the effect of these understated sharing percentages. Frentrup Decl. ¶ 28.

4. IDLC-UDLC Mix

³³ See Massachusetts Order ¶ 39.

SBC's computation of loop costs also uses a mix of integrated and universal digital loop carrier ("DLC") that is apparently based on the mix in its historic, embedded network. The forward-looking technology is integrated DLC, as this technology allows more efficient, lower cost provisioning of loops. Use of universal DLC in computing loop costs can significantly inflate those costs. SBC has not filed the mix of integrated and universal DLC used in determining its UNE loop rates with its application, nor the model that uses those inputs to determine loop costs, so it is impossible to determine the effect of using this inefficient technology on loop costs. Frentrop Decl. ¶ 29.

5. Feeder Plant Tapering

Lastly, based on the available cost model information, WorldCom has identified an inappropriate lack of tapering of the feeder plant. Frentrop Decl. ¶ 30. This means that the fiber feeder cable at the end of its run is larger than necessary to serve the number of customers at that point in the network. As the Missouri PSC acknowledges, this overstates loop cost. Despite this acknowledgement, however, the PSC proposes no change or adjustment to the model to correct this error. This overstatement of cost could be substantial. Frentrop Decl. ¶ 30. However, without the model, WorldCom is unable to determine the effect of this model design flaw. At any rate, the Commission should provide no deference to the Missouri PSC's approval of this input, due to the PSC's acknowledgement that it overstates loop costs.

* * * * *

Because of the problems with the switching and loop models and their inputs described above, which indicate that SBC's switching and loop rates in Missouri are not TELRIC-compliant, and because SBC presents no evidence that its Arkansas are

consistent with the Commission's TELRIC principles, the Commission should reject SBC's assertion that it meets the checklist requirement that it offer cost-based UNE rates.

CONCLUSION

SBC's Arkansas and Missouri application should be denied.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Lori Wright", written in a cursive style.

Robert Lopardo
Lori Wright
Kimberly Scardino
WORLD COM, INC.
1133 19th Street, N.W.
Washington, D.C. 20036

(202) 736-6468

September 10, 2001

TAB A

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)	
)	
Application by SBC Communications, Inc.)	
for Authorization to Provide In-Region,)	CC Docket No. 01-194
InterLATA Services in Arkansas and Missouri)	
_____)	

**DECLARATION OF CHRIS FRENTROP
ON BEHALF OF WORLD.COM, INC.**

Based on my personal knowledge and on information learned in the course of my duties, I, Chris Frentrup, declare as follows:

I. INTRODUCTION AND SUMMARY

1. My name is Chris Frentrup. I am employed by WorldCom, Inc. ("WorldCom") as a Senior Economist in the Public Policy Analysis Group of the Federal Advocacy organization. In that position, I am responsible for analyzing economic issues relating to telecommunications industry regulation and public policy, and assisting in the development and advocacy of WorldCom's public policy positions. I have participated in the development and advocacy of the HAI Model, a model used in the estimation of telecommunications network costs. I have also worked extensively on the assessment of local exchange carrier productivity in the Commission's price cap proceedings.

2. The purpose of my Declaration is to demonstrate that SBC's current unbundled switching and loop rates in Missouri are not based on total element long run incremental cost ("TELRIC"), despite SBC's claims to the contrary in its recently filed section

271 application. See SBC Brief at 23. Unfortunately, a similar analysis of SBC's Arkansas rates is not possible, because SBC has simply imported the rates from Kansas, rather than submitting any analysis of Arkansas's own TELRIC costs.

3. First, SBC-Missouri's loop and switch usage rates remain unreasonably high when compared to the rates in the three states in which SBC has already received long distance authority under section 271 of the 1996 Act and when compared with the rates SBC has in place in Arkansas. Thus, even if one were to assume that rates in those other states are properly set at TELRIC levels, Missouri rates are excessive. The relationship among the switching and loop rates in Missouri, Arkansas, Kansas, Oklahoma, and Texas is also inconsistent with the relationship among the unbundled network element ("UNE") costs for these states that are produced by the Commission's Synthesis Model ("SM"). Specifically, Missouri's loop rates are higher than the rates in any of the other states in the Southwestern Bell region, even though the costs from the SM indicate that Missouri's loop cost should be lower than the cost in every state except Texas. Similarly, Missouri's switch usage rates are higher than in every state except Oklahoma, even though the SM results show that Missouri has lower costs than both Arkansas and Kansas.

4. Second, SBC has not corrected any of the TELRIC problems with its Missouri rates that WorldCom noted in its comments on SBC's first section 271 application for Missouri. SBC has still not submitted the cost studies it used in Missouri to determine its rates, depriving the Commission, the Department of Justice, WorldCom, and other interested parties of a full and fair opportunity to assess SBC's UNE rates. It has also failed to correct the inputs that are inconsistent with TELRIC principles that were used in those models.

5. Third, the adjustments in the loop, switching, and transport rates that SBC has made in this section 271 application are completely unsupported and insufficient to correct the TELRIC errors in the model.

6. For all of these reasons -- because SBC's rates in Missouri are out of line with the rates in its other jurisdictions; because SBC has not submitted all its cost models and their associated inputs; and because the ad hoc adjustment made by SBC to the rates it previously claimed were TELRIC is not itself TELRIC-based -- the Commission should reject SBC's application.

II. SBC'S UNE RATES FOR SWITCHING AND LOOP IN MISSOURI ARE UNREASONABLY HIGH COMPARED TO THE RATES IN SBC'S OTHER STATES

7. The UNE rates that SBC now proposes in Missouri for switching and loops are unreasonably high. This fact is highlighted by a comparison of the Missouri rates to the rates adopted in the other SBC states for which the Commission has already granted section 271 applications. The switch usage rate in Missouri is nearly 16 percent greater than the same rate in Kansas and almost 24 percent greater than the rate in Texas. Loop rates in Missouri are the highest of any state in the Southwestern Bell region.

8. The cost relationships from the SM suggest that the Kansas and Missouri switch usage costs are nearly identical.¹ Despite this cost relationship, the Missouri rate for switch usage remains nearly 16 percent above the Kansas rate. At a minimum, the Missouri switch usage rate should be reduced by approximately 16 percent, to at least bring it in line with the Kansas rate.

¹ The Commission has previously stated that the SM provides a reasonable basis for comparing cost differences among states. See Kansas-Oklahoma Order ¶ 84; Massachusetts Order ¶ 40.

9. Excessive rate levels are also a problem with loop rates in Missouri, which are notably higher than those in Texas, Kansas and Oklahoma. The loop rates adopted in both Kansas and Texas result in a statewide average of just over \$14. The loop rates in Oklahoma are similar, with a statewide average rate within 5 percent of the Kansas and Texas rates. However, the Missouri rates are still approximately 8 percent higher than both the Kansas and the Texas rates.²

10. That this rate difference in Missouri is unreasonable is confirmed by a comparison of the relative loop costs that are computed in the SM.³ The loop costs computed by the SM for Kansas and Missouri are almost identical, both being about 14 percent above the cost in Texas, with the cost in Oklahoma being about 6 percent higher than the Kansas and Missouri costs. Given these cost relationships, it is unreasonable that Missouri's loop rate is 8 to 9 percent above the rate in Kansas. This analysis suggests that the Missouri loop rate should be close to the nearly \$14 loop rates adopted in both Texas and Kansas, rather than the \$15.28 rate that SBC offers in Missouri.

III. SBC HAS STILL NOT PROVIDED ACCESS TO ITS COST MODELS AND INPUTS, THEREBY FAILING TO MEET ITS BURDEN OF PROOF

11. As demonstrated above, the Missouri rates for loop and switch usage are so high that they cannot be TELRIC-based. Just as in its initial section 271 application for Missouri, SBC has failed to include electronic versions of the cost models it used to set its rates. Therefore, while WorldCom has identified issues with the inputs used in those models, it remains unable to fully quantify all the effects on computed costs of changes to those inputs. With one

² The statewide average loop rates are \$14.04 in Kansas, \$15.28 in Missouri, \$14.84 in Oklahoma, and \$14.15 in Texas.

³ These comparisons use the methodology employed in the Massachusetts Order, which compared the weighted

exception, SBC has not even provided a description of its cost models that is sufficiently detailed to allow WorldCom to recreate the results.⁴ Without these cost models, WorldCom cannot quantify the effect of these issues on rates.

12. More importantly, unless it files the models on which its rates are based, SBC cannot meet its burden of proof that the UNE rates in Missouri are cost-based. Since SBC has not filed this section 271 application with complete and adequate support, the Commission should reject this application, and invite SBC to refile when it provides all relevant cost models and inputs.

IV. THE METHODOLOGY USED TO SET UNE RATES IN MISSOURI DOES NOT COMPLY WITH TELRIC PRINCIPLES

13. Despite our inability to see all the necessary cost models and inputs, WorldCom has identified several input and model design issues that show that the rates are not in line with TELRIC principles and at least partially explain the overstatement of costs identified above. As in our review of SBC's previous section 271 application for Missouri, we are for the most part unable to quantify the precise effect of these problems due to the shortcomings in SBC's application. Nevertheless, it is clear that there are substantial problems with the models and the inputs used for the development of switching and loop costs that have resulted in rates that are clearly excessive.

average of Universal Service Fund wire center loop costs between Massachusetts and New York.

⁴ The lone exception is the ACES model, that is used to convert the investment in plant into monthly recurring costs. WorldCom has recreated that model in Excel spreadsheet form and used it in the quantifications discussed infra.

A. Switching

14. SBC develops the basic switching investment through the use of the Switching Cost Information System (“SCIS”) model.⁵ This investment is then augmented through the use of a hardware factor, to add investment in several feature-related pieces of equipment, and monthly costs are determined by applying various cost factors to this investment.

15. Because SBC has neither made the SCIS model available for review in this proceeding, nor even presented the outputs of SCIS that were used to set the switching rates, WorldCom is unable to determine what is included in the level of investment reported for switching. Furthermore, SBC has also failed to provide a full list of the inputs used in SCIS. Without these inputs, neither commenters nor the Commission have the ability to assess the reasonableness of SBC’s switching rates.

16. One important input used in SCIS that the Missouri Final Arbitration Order does address is the vendor discounts on list prices for the switch. In the development of the SM, the FCC determined that it should use only the discounts offered for initial switch purchases. This was appropriate, the Commission concluded, because initial switches reflected cost-effective forward-looking technology.⁶ In setting UNE rates, states have taken various approaches, with some states following the FCC and using only initial switch discounts, while others have used some weighted average of the initial and growth switch discounts.

17. In Missouri, for the first time, a PSC has decided to use only the discounts on purchases of growth switches.⁷ When these discounts have been examined in other

⁵ SCIS is a proprietary engineering cost model developed by Telcordia (formerly Bellcore).

⁶ See USF Tenth Report and Order ¶ 317.

⁷ See Costing and Pricing Report, included with SBC’s application as Appendix G - MO, Tab 11, at 8, 32. This MO PSC staff report acknowledges that the growth discounts are typically lower than the discounts on new switch

proceedings at the Commission and in the states, they have typically been found to be substantially lower than the discounts on initial switch purchases. Thus, the Missouri PSC's decision to use only growth discounts is likely to be inflating the cost of switching significantly.

18. Unfortunately, it is impossible to determine the amount by which switch costs are inflated by this input, because SBC has not made available the SCIS model which uses this input to develop a switching cost. It is clear, however, that using only this lower growth discount is not consistent with TELRIC principles.

19. This apparent overstatement of switching investment is further compounded by SBC's method of computing the investment in various pieces of peripheral switch related equipment. SBC determines the ratio of investment in these pieces of equipment to switch investment, based on adjusted historical data, and multiplies this "hardware factor" by the SCIS investment. Thus, any amount by which the SCIS investment is overstated through the use of smaller growth discounts will also result in the placement of excessive hardware investment by the model.

20. In addition to this source of overstated hardware investment, the manner in which the factor is developed itself may well overstate the investment, as the Missouri PSC acknowledges. In accepting the use of this factor, the Missouri PSC notes that the equipment included in this factor may be double-counted in other investment. It also expresses concern that the factor, which is based on historical relationships between switch and hardware investment in SBC's network, may be based on old technology and therefore overstated. Despite these acknowledged problems, the Missouri PSC makes no adjustments to the hardware factor.

21. Based on data included in SBC's filing, it appears that this hardware factor adds about 8 percent onto the switching cost. Given the PSC's admitted uncertainty about the correctness of this factor, the FCC should give no deference to the Missouri PSC's decision to include this factor in the computation of switching costs.

22. The Missouri PSC also adopts a projection life and net salvage⁸ for switches that results in excessive switching cost. Projection life and net salvage are combined to develop a depreciation factor that is used to determine depreciation expense.⁹ The resulting depreciation factor is 10.21 percent, i.e., annual depreciation expense is 10.21 percent of total switch investment. This factor is far higher than the factor that would have resulted if the PSC had used either the values adopted by the FCC for use in the SM (the factor would have been 6.09 percent) or the values that the PSC has adopted for SBC's intrastate retail rates (the factor would have been 5.14 percent). Use of the SM factor would lower switching costs about 12 percent, while use of the SBC retail factor would lower switching costs about 15 percent.

23. SBC attempts to support the use of these shorter lives on the grounds that the regulatory lives, such as are used in the SM, are based on physical rather than economic obsolescence. This is not true. The lives adopted by the Commission for use in the SM are an average of the regulatory lives adopted by the incumbent local exchange carriers ("ILECs"). Prior to the Commission's depreciation simplification proceeding, the ILECs' depreciation lives were set based on their own data regarding actual plant retirements. These retirements took place

⁸ Projection life is the expected service life of the plant. At the end of that service life, the plant is removed from use (e.g., poles are removed and hauled away) and/or sold to others for reuse or as scrap (e.g., switches can be sold to other telephone companies). The net difference between the cost of removing plant and the proceeds from selling used plant when its service life is complete is termed net salvage. Net salvage is reported as a percentage of the original cost of the plant.

⁹ The formula is $(1 - \text{Net Salvage}) / \text{Depreciation Life}$.